

## **Response of Share Prices to Information Content of Dividend: An Empirical Analysis of Colombo Stock Exchange**

Balachandran V<sup>1</sup>. and Buvanendra S.<sup>2</sup>

### **Abstract**

Dividends are considered an important source of information for investors, and studies by scholars have tested the information content of dividends in many instances, but relatively less in emerging markets, and in particular, Sri Lanka. The significance of this study would be the inclusion of a measure for the signaling effects of interim dividends as well, which were not previously examined in the Srilankan context. The primary objective of this research is to examine the response of the share market to overall dividend announcements, while the secondary objectives included the examination of the share market response to dividend initiations, interim dividends and final dividend in the case of dividend increases, dividend decreases and dividend no change. The average abnormal returns generated by stocks were used as the means to measure the market response. The abnormal return was determined as the difference between the actual return and the expected return on the stock where the market model was used in estimating the expected return. The findings based on the data collected for the period from 2004 to 2009 reveal that there are significant positive abnormal returns predominantly evident in the overall sample and most sub samples during the period leading up to the announcement and on the announcement date, and negative abnormal returns during the period following the announcements. Although findings of this study is not perfectly consistent with the conventional dividend hypothesis that perceives dividend increase as 'good news' that should result in positive abnormal returns and vice versa, they do exhibit information content in dividend announcements.

***Key words: Dividend announcement, Colombo Stock Exchange.***

---

<sup>1</sup> Department of Finance, Faculty of Management & Finance, University of Colombo

<sup>2</sup> Department of Finance, Faculty of Management & Finance, University of Colombo, paramcommerce@yahoo.com